

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

February 3, 2005

Ms. Martha Hughey, Assistant Vice President of Reimbursement
National Healthcare Corporation
City Center
100 Vine Street
Murfreesboro, Tennessee 37130

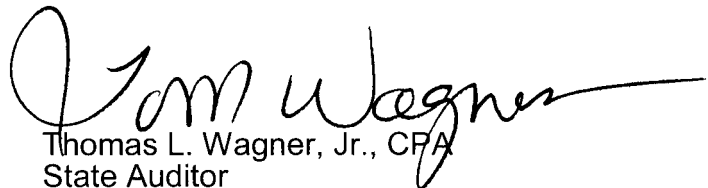
Re: AC# 3-NAG-J1 – National Healthcare North Augusta, LLC

Dear Ms. Hughey:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2000 through September 30, 2001. That report was used to set the rate covering the contract period beginning January 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
NORTH AUGUSTA, SOUTH CAROLINA**

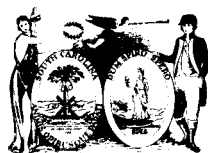
**CONTRACT PERIOD
BEGINNING JANUARY 1, 2003
AC# 3-NAG-J1**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 30, 2004

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with National Healthcare North Augusta, LLC, for the contract period beginning January 1, 2003, and for the twelve month cost report period ended September 30, 2001, as set forth in the accompanying schedules. The management of National Healthcare North Augusta, LLC is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

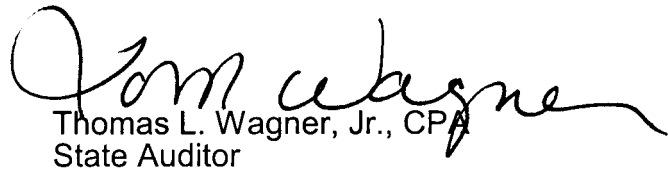
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by National Healthcare North Augusta, LLC, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and National Healthcare North Augusta, LLC dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
August 30, 2004

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC

Computation of Rate Change
For the Contract Period
Beginning January 1, 2003
AC# 3-NAG-J1

01/01/03-
09/30/03

Interim Reimbursement Rate (1)	\$121.47
Adjusted Reimbursement Rate	<u>120.36</u>
Decrease in Reimbursement Rate	\$ <u><u>1.11</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 8, 2003

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
Computation of Adjusted Reimbursement Rate
For the Contract Period January 1, 2003 Through September 30, 2003
AC# 3-NAG-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 53.08	\$62.89	
Dietary		11.31	11.21	
Laundry/Housekeeping/Maintenance		<u>9.91</u>	<u>9.67</u>	
Subtotal	<u>\$5.86</u>	74.30	83.77	\$ 74.30
Administration & Medical Records	<u>\$ -</u>	<u>16.00</u>	<u>12.77</u>	<u>12.77</u>
Subtotal		90.30	<u>\$96.54</u>	87.07
<u>Costs Not Subject to Standards:</u>				
Utilities		4.04		4.04
Special Services		-		-
Medical Supplies & Oxygen		6.57		6.57
Taxes and Insurance		7.32		7.32
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$108.23</u>		105.00
Inflation Factor (3.70%)				3.89
Cost of Capital				9.72
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				5.86
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.11)</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$120.36</u>

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-NAG-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,453,163	\$2,119 (2)	\$ -	\$2,455,282
Dietary	522,936	126 (2)	-	523,062
Laundry	84,778	-	-	84,778
Housekeeping	230,603	-	149 (2)	230,454
Maintenance	143,197	-	69 (2)	143,128
Administration & Medical Records	944,997	-	204,916 (2)	740,081
Utilities	186,665	-	-	186,665
Special Services	-	-	-	-
Medical Supplies & Oxygen	304,026	-	-	304,026
Taxes and Insurance	332,348	6,191 (2)	-	338,539
Legal Fees	(101)	-	-	(101)
Cost of Capital	509,246	-	3,045 (1) 1,399 (2) 27,250 (3) <u>27,852 (4)</u>	449,700
Subtotal	5,711,858	8,436	264,680	5,455,614
Ancillary	-	-	-	-

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-NAG-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Nonallowable	709,823	3,045 (1)	-	966,067
		198,097 (2)		
		27,250 (3)		
	<u> </u>	<u>27,852 (4)</u>	<u> </u>	<u> </u>
 Total Operating Expenses	 <u>\$6,421,681</u>	 <u>\$264,680</u>	 <u>\$264,680</u>	 <u>\$6,421,681</u>
 Total Patient Days	 <u>46,253</u>	 <u>-</u>	 <u>-</u>	 <u>46,253</u>
 Total Beds	 <u>132</u>			

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-NAG-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 14,192	
	Other Equity	34,351	
	Nonallowable	3,045	
	Fixed Assets		\$ 48,543
	Cost of Capital		3,045
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	198,097	
	Dietary	126	
	Taxes and Insurance	6,191	
	Restorative	2,119	
	Administration		204,916
	Cost of Capital		1,399
	Housekeeping		149
	Maintenance		69
	To adjust home office cost		
	HIM-15-1, Section 2150		
3	Nonallowable	27,250	
	Cost of Capital		27,250
	To adjust capital return		
	State Plan, Attachment 4.19D		
4	Nonallowable	27,852	
	Cost of Capital		27,852
	To adjust deemed asset value limitation		
	State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	\$313,223	\$313,223

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-NAG-J1

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.4607</u>	<u>2.4607</u>	
Deemed Asset Value (Per Bed)	38,431	38,431	
Number of Beds	<u>88</u>	<u>44</u>	
Deemed Asset Value	3,381,928	1,690,964	
Improvements Since 1981	394,102	225,993	
Accumulated Depreciation at 9/30/01	<u>(1,140,315)</u>	<u>(693,763)</u>	
Deemed Depreciated Value	2,635,715	1,223,194	
Market Rate of Return	<u>.0577</u>	<u>.0577</u>	
Total Annual Return	152,081	70,578	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	152,081	70,578	
Depreciation Expense	139,157	106,637	
Amortization Expense	-	-	
Capital Related Income Offsets	(12,502)	(6,251)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	278,736	170,964	\$449,700
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>	<u>15,418</u>	<u>46,253</u>
Cost of Capital Per Diem	\$ <u>9.04</u>	\$ <u>11.09</u>	\$ <u>9.72</u>

NATIONAL HEALTHCARE NORTH AUGUSTA, LLC
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2001
 AC# 3-NAG-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ N/A	\$ N/A
Adjustment for Maximum Increase	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$9.04</u>	<u>\$11.09</u>
Reimbursable Cost of Capital Per Diem		\$9.72
Cost of Capital Per Diem		<u>9.72</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>

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